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S E C R E T SECTION 01 OF 03 VIENNA 000309

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SUBJECT: TREASURY U/S LEVEY RAISES CONCERNS ABOUT TWO AUSTRIAN BANKS (S)

REF: A) 05 VIENNA 3833 B) 05 STATE 220738

Classified By: Deputy Chief of Mission Scott F. Kilner for reasons 1.5 (b) and (d).

1. (U) This message contains a request from the Ministry of Finance for information from the Department of Treasury. Please see paragraph 6.

Summary

2. (S) During January 19 meetings, U/S Levey reiterated USG concerns to senior Austrian officials about financial relations between two Austrian banks, Raiffeisen Zentral Bank (RZB) and Bank Austria/Creditanstalt (BA/CA), and Iranian and North Korean entities connected to WMD proliferation. U/S Levey stressed the difference between punitive, legal action against the banks and informal warnings about the risk these relationships entailed. U/S Levey warned that continued commercial relations with proliferators would damage the banks' reputation, harm the integrity of the Austrian financial system, and weaken non-proliferation efforts. U/S Levey noted that the international community had the authority, through UNSC 1540 to take preventative measures to restrict Iranian WMD financing, separate from the political decision to impose economic sanctions. Finance Minister Grasser acknowledged the USG concerns and promised to raise the concerns directly with the CEOs of RZB and BA/CA. Grasser questioned the singling out of RZB's operations in Belarus, claiming western banks in Belarus helped to further market economy practices. U/S Levey told Hans-Peter Manz, the Chancellor's Diplomatic Advisor, that informal persuasion, rather than legal authority, could be a powerful tool to dissuade banks from doing business with WMD proliferators, terrorist financiers, and money launderers. Manz agreed that more could be done in less political, more technical channels to combat WMD financing. The FMA admitted that three North Korean banks held accounts with BA/CA, but claimed the accounts were under close supervision. The FMA asked for closer collaboration between FIU and intelligence entities, while maintaining that ref B concerns were unfounded. End Summary.

FinMin: We Understand USG Concerns on WMD Financing

3. (S) U/S of Treasury Stuart Levey, accompanied by Ambassador McCaw, told Minister of Finance Karl-Heinz Grasser January 19 that the U.S. was very concerned about business relations between two Austrian banks, Raiffeisen Zentralbank (RZB) and Bank Austria/Creditanstalt (BA/CA), and Iranian and North Korean front firms for proliferation entities. U/S Levey warned that the various concerns (ref B) might create the impression that Austria was a safe haven for WMD financiers. Continuing commercial relations with proliferators would damage the banks' reputation, sully Austria's financial system, and weaken global non-proliferation efforts.

4. (S) U/S Levey noted that recent developments in Iran indicated a downward trajectory with regard to Iran's cooperation with the IAEA and EU-3. It was difficult to predict exactly how the situation would unfold, but international sanctions were becoming a more probable step. U/S Levey stressed that UN sanctions would require a political decision, but, in the meantime, the international community could take preventative action to reduce facilitation of WMD financing. U/S Levey added that enacting laws and regulations against WMD financing should be an objective. However, recognizing that legal measures are more difficult and time-consuming to achieve, the focus now should be on persuading financial institutions that business with WMD proliferators was creating more risks than benefits.

5. (S) Grasser maintained that the U.S. and Austria "were on the same page" regarding efforts to stem WMD financing. The GoA was not supportive of banks' relationships with Iran or North Korean entities. However, Grasser questioned why the USG had also singled out RZB's business in Belarus as problematic (ref B). Belarus was certainly a dictatorship, but Grasser argued that RZB, and other western financial institutions, such as the EBRD, were helping to implement market economy standards in Belarus' banking sector. The Ambassador and U/S Levey both said that, while there were

specific banking concerns, the USG appreciated the overall "bridge-building" efforts of Austrian financial institutions in Eastern Europe.

16. (S) Grasser said that he would personally discuss the various issues with the CEOs of RZB and BA/CA and the regulator, the Financial Market Authority (FMA). There was an obvious political message that the banks and regulators needed to recognize. However, to avoid "an abstract debate with the banks," Grasser asked the USG to provide the GoA with information, which the GoA could release to the banks. U/S Levey agreed this would be useful. ACTION REQUESTED: To meet U/S Levey's commitment to Minister Grasser, Embassy requests a short "information sheet" on the banking concerns, which the Minister of Finance could present to the RZB and BA/CA CEOs.

17. (S) U/S Levey welcomed Grasser's commitment to take action on the USG concerns. U/S Levey underlined that the USG wanted to make anti-WMD financing a multilateral effort, building larger coalitions to fight this threat. UNSC 1540 provided the international legal basis to take action against WMD financing proliferators. Grasser pointed out that the informal EcoFin meeting in early April might afford Treasury Secretary Snow an opportunity to discuss the issue at a

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luncheon or side-meeting.

Persuading Banks From Relations with Proliferators

18. (S) During a January 19 meeting with U/S Levey and DCM, Hans-Peter Manz, the Chancellor's Diplomatic Advisor, said the GoA recognized the importance of addressing the USG concerns in order to stop proliferation efforts and to safeguard the Austrian financial market. Manz added that he had discussed the issues with the FMA and RZB, and he believed they were "on track and sensitive to USG concerns." However, Manz cautioned that there was a thin line between criminal investigations and "fishing expeditions" that both governments needed to recognize, as well as data protection issues.

19. (S) U/S Levey noted that the USG and GoA were at a good point to cooperate on this issue, before Austria began acquiring a reputation as a haven for WMD financing. The legal threshold to initiate a criminal case might indeed be high, but persuasion, pointing out the negative consequences of continued business relations with proliferators, could be even more powerful. U/S Levey cited China's closure of the North Korean Tanchon Commercial Bank's account as an example of positive cooperation.

110. (S) According to Manz, it would be difficult to shut down Iranian commercial entities associated with WMD financing. Iranian diaspora and informal commercial networks were well imbedded throughout Europe. Nevertheless, Manz agreed the international community must make the effort. He recommended avoiding "politicization" of anti-WMD financing efforts in political fora, such as the EU's General Affairs External Relations Committee. Instead, the EU's EconFin's mechanism would provide a more technical and efficient way to move the issue forward within the EU, avoiding the "sanctions debate."

FMA: We Need More Information to Act

11. (S) Heinrich Traumueller, Executive Director of the FMA, told U/S Levey January 19 that under Austrian law, there was no legal basis to pursue WMD financing cases. Traumueller said the FMA was willing to work with the U.S. on cases, but he noted that information-sharing between the various entities was poor. He noted the FMA had received only one case from FINCEN in 2005. Traumueller appealed for more collaboration through FIU and intelligence channels.

112. (S) The FMA admitted that there were three North Korean bank accounts with the BA/CA, but claimed that all three were under the highest scrutiny from the BA/CA and FMA. The FMA further denied that the Banco Delta Asia had any relationship to an Austrian bank. According to the FMA, there was one payment transfer for Euro 7 million in October 2005 that originated from a Macao trading company via the Bank of China and Dresdner Bank, which BA/CA transferred to a Moscow bank. The FMA admitted it did not know what the payment was. Payments through the BA/CA were typically to international entities, such as embassies, the World Health Organization, World Food Program, UNICEF, and the Swiss Development Assistance agency. Austrian bank business with North Korean entities was limited, but not increasing, according to Traumueller.

113. (S) Concerning other ref B concerns:

--The FMA said that the Iranian Mission at the International

Atomic Energy Agency in Vienna had opened a deposit bank account for Novin Energy Company with BA/CA. Payments to Mileace General Trading were rather small and therefore did not arouse suspicion;

--Accounts for the NGO Iraqihilfswerk were under close supervision, but based on current evidence, the NGO appears to be a legitimate charity. The FMA and FIU would appreciate additional information, which the USG can share;

--BA/CA has no relationship with the Czech firm Omnipol. Furthermore, the Czech subsidiary of BA/CA, HVB Czech, has low credit limits, so it would not have been possible to make large transfers to Omnipol;

--According to Traumuegger, the FMA is convinced there are no business ties between (Russian crime boss) Semyon Mogilevich and RZB, nor do RZB executives receive payments from the gas joint venture RosUkrEnergo (RUE).

14. (S) U/S Levey said the USG was eager to intensify cooperation with Austrian financial authorities. However, he urged the regulators to follow-up on their own, rather than rely solely on information from the U.S. He noted that regulators should informally make financial institutions aware of potential weaknesses and problems, rather than relying on legal authority. Regulators should remind banks of the cost/benefits of doing business with proliferators, terrorist financiers, and money launderers. The individual banks' reputations were at risk, as was the reputation of the Austrian financial system.

15. (U) U/S Levey's office cleared on this message.
McCaw